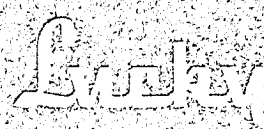


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FINANCIAL HIGHLIGHTS

(dollars in thousands except per share amounts)

		1981	1980
Financial Highlights	<i>Sales</i> _____	\$7,201,404	\$6,468,682
	Percent change from prior year _____	11.3	11.2
	<i>Net earnings</i> _____	\$ 95,452	\$ 90,458
	Percent change from prior year _____	5.5	(7.8)
	Percent of sales _____	1.3	1.4
	Percent of average common shareholders' equity _____	20.0	20.8
	<i>Per common share:</i>		
	Earnings _____	\$ 1.88	\$ 1.80
	Shareholders' equity _____	\$ 9.78	\$ 9.11

**Corporate
Profile**

Lucky Stores, Inc. is a diversified, high-volume retailer operating stores of various types in 32 states. Information on the number, size and trade names of the stores of each type is on page 28 of this report.

Operations are conducted through 11 divisions and subsidiaries. Four divisions operate our food stores and our Gemco and Memco food departments in specific geographic areas. Other divisions and subsidiaries operate their respective types of stores throughout the country. In sales, Lucky is the seventh largest retailer in the United States and the third largest engaged primarily in food retailing.

The Company also operates warehouses and distribution facilities, as well as several processing plants which supply food and other household products to many of its stores.

**Shareholder
Information**

ANNUAL MEETING	The annual meeting of shareholders will be held this year in San Francisco on May 27, 1982. Proxies for use at the meeting will be solicited by the separate mailing of a notice of the meeting, proxy statement and form of proxy about April 22, 1982.
ANNUAL REPORT	Shareholders may obtain at no charge a copy of Lucky's 10-K annual report filed with the Securities and Exchange Commission by writing to the Secretary at the executive offices.
EXECUTIVE OFFICES	6300 Clark Avenue, Dublin, California 94566
COUNSEL	Donahue, Gallagher, Thomas & Woods, Oakland, California
INDEPENDENT ACCOUNTANTS	Price Waterhouse
TRANSFER AGENT	Bank of America, NT&SA, World Headquarters Bldg., San Francisco, California 94104
REGISTRAR	First Interstate Bank of California, 405 Montgomery Street San Francisco, California 94104
STOCK EXCHANGE LISTING	The common shares of the Company are listed on the New York and Pacific Stock Exchanges, symbol LKS.

REPORT TO SHAREHOLDERS

Sales exceeded seven billion dollars for the first time, rising 11.3 percent in 1981 to \$7.2 billion. All operating divisions and subsidiaries, with the exception of restaurants, had record sales and Lucky achieved real growth in most areas of our business.

Earnings were \$95.5 million, five and one-half percent above 1980, making 1981 the second-best earnings year in our 51-year history. The LIFO charge before income taxes was \$25 million in 1981, down from \$38 million in 1980, reflecting the lower rate of inflation. Primary earnings per common share were \$1.88 compared with \$1.80 in the previous year. Fully diluted earnings were \$1.85 per share.

Return on average common shareholders' equity was 20 percent, Lucky's eighteenth consecutive year at or above this level. The 20 percent rate of return remains exceptional compared with other retailers as well as most major corporations.

Dividends were \$1.13 per common share for the 1981 fiscal year. This represented 60 percent of earnings per share. Our primary goal is to sustain profitable growth and continue to maintain a superior return on shareholders' equity. Even Lucky's historic payout ratio of approximately 50 percent appears inconsistent with that goal in a period of record high capital costs. For that reason we believe future dividend increases should be at a slower rate than earnings increases, with the objective of bringing the payout ratio to a level more consistent with economic conditions and our financial goals.

Lucky operated 1,576 retail stores at yearend, organized into eleven divisions or subsidiaries, doing business in 32 states. Our 66,000 employees serve more than eight million customers each week.

We remain committed to sales volume and are willing to reduce gross margins temporarily when necessary as an investment to achieve or preserve high sales per store. It is our conviction that superior sales volume per store ultimately provides the soundest approach to sustaining long-term profitability for a retailer serving mass customer markets. This belief was validated in 1981 as customer counts increased and comparable store sales gains exceeded the rate of inflation.

Lucky is a well balanced retail company operating three major types of stores: food stores, department stores, and specialty stores. Our stores are well distributed geographically with primary emphasis in areas of the country still experiencing growth. Geographic and store-type diversification have substantially reduced the Company's vulnerability to difficult economic or competitive conditions in a specific region of the country or retail business segment.

This was the year of the specialty store. Lucky now operates over 900 automotive, fabric, women's apparel, small family department stores, and restaurants. Results were good to outstanding for all but the restaurants. Specialty stores, as a group, produced 29 percent of total earnings on ten percent of Company sales.

Food stores provided 52 percent of Lucky's earnings in 1981. Sales gains matched the overall Company increase and real growth was achieved as more than two-thirds of the gain was in comparable stores. Geographically, results varied depending on the severity of the recession. The Midwest was hardest hit throughout the year. The introduction of "generic" products into all food operations proved very timely by offering another value alternative for the benefit of cost-conscious consumers. Food store earnings also absorbed substantial costs related to the opening of three large new warehousing and distribution facilities.



S. DONLEY RITCHEY
Chairman of the Board and
Chief Executive Officer

JOHN M. LILLIE
President

It was the second consecutive disappointing year for our department stores. Consumers lacked discretionary income after meeting inflated obligations for housing, energy, transportation and interest costs. They remained cautious spenders. Sales of big-ticket discretionary items and home-related categories were slow. Seasonal volume in the crucial fourth quarter did respond well to intensive, but costly, advertising and promotional efforts. The eastern Memo stores had a significant negative impact on department store earnings resulting from a food price war in the Washington, D.C. metropolitan area and our decision to close three unprofitable outlying stores.

In total, Lucky opened 130 new stores and closed or replaced 65, adding three percent to net retail square footage.

Full-line grocery warehousing and distribution facilities in Irvine, California (913,000 square feet) and in Westville, Indiana (550,000 square feet) began operations during the year. Non-foods warehousing in Southern California was consolidated into a portion of the large Buena Park center (606,000 square feet) vacated when Irvine opened. The Houston, Texas distribution facility (496,000 square feet) had its first full year of operation, having begun shipping late in 1980. Nearly 40 percent of total Company warehouse capacity has been added in the past four years.

Lucky's eighteen manufacturing and processing plants, serving primarily the food stores, continue to be important contributors to store profitability. A new bakery in Tempe, Arizona began production in December and a new milk processing plant was completed in Northern San Diego County at yearend. The four-year investment in new plants and warehouses has been substantial, in excess of \$150 million. Relatively few additions to central facilities in our operating divisions should be required during the next several years to support planned store growth.

Total capital expenditures for the year were \$153 million, \$6 million higher than in 1980. In 1981 \$75 million went into support facilities and \$78 million into stores, including major remodels of 35 food and department stores. Scanning installations in food stores were doubled to 95 from 47 at the beginning of the year. An additional 90-100 stores per year will have scanning installed in 1982 and beyond.

We expect to add about seven percent to Lucky's 31 million square feet of retail space in 1982. Though this is significantly above 1981 levels, our intention is to finance this store growth with internally generated funds. Emphasis on specialty stores will continue, and there will be an increase in the number of new food and department stores to gain the benefits of expanded distribution capacity.

Lucky's financial strength has enabled us to maintain store growth and take advantage of real estate opportunities by internally financing construction of most new food and department stores. Favorable long-term store rents have been achieved through sale-leaseback transactions. Commercial paper was issued for the first time in 1981 to finance interim construction costs and seasonal inventory requirements.

The management transition was completed during 1981 when Don Ritchey became Chairman of the Board as well as Chief Executive Officer and John Lillie was elected President. Gerry Awes was named Honorary Chairman of the Board of Directors and Bud Fisher Chairman of the Executive Committee. Walter Hoadley joined the Board in July in anticipation of his retirement as Executive Vice President and Chief Economist of Bank of America. The Board Nominating Committee was redesignated the Board Organization and Membership Committee with expanded responsibilities for Board and Committee organization and function.

Reed Buffington joined the Company as Senior Vice President-Administration after a long career as President of Chabot Community College. Reed has been a Director of Lucky since 1970.

The Valley Division was split into two operating divisions. Dorris Cunningham became President of the Yellow Front Division. Tom Herman joined the Company as President of the Checker Division. Jake Henegar, who founded Valley Distributing Company, will now devote full attention to LKS Imports as its President. New management also was appointed in the Restaurant Subsidiary.

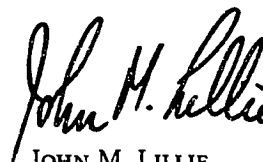
Overall, 1981 was another challenging year, but also one of progress and accomplishment. Lucky is well positioned to benefit from an improving economy, whether the improvement occurs in 1982 or beyond. We will continue to allocate our resources to produce long-term and sustained profitability for Lucky.

In response to the contributions of shareholders, directors and employees, Lucky's customers have made us the seventh largest retailer in the United States. Size is not, however, the standard by which we judge success. Customer service and return on shareholders' equity are. As we continue our commitment to serve customers exceptionally well and consistently offer recognizable values, Lucky will continue to achieve superior financial results.



S. DONLEY RITCHEY
Chairman of the Board and
Chief Executive Officer

March 26, 1982



JOHN M. LILLIE
President

**Financial
Condition**

Lucky continues to maintain a strong financial position. At January 31, 1982 cash and short-term securities exceeded \$65 million. During the year, over \$218 million of cash was provided through current operations and was used primarily for additions to central facilities, store fixtures and equipment and for cash dividends.

In 1981 the Company invested about equal amounts in stores and in central facilities. Fixtures and equipment for new stores required about \$29 million, and \$49 million was invested to remodel, modernize and enlarge existing stores under our continuing program for maintaining our store base in first class condition. The investment in new food distribution facilities, including land and buildings of the new Irvine, California center, amounted to \$47 million. Additions of \$28 million, primarily fixtures and equipment, were made to existing central facilities. These expenditures have been financed from internally generated funds.

New central facility buildings, including a food distribution center in Westville, Indiana, were financed through a \$30 million sale-leaseback transaction during 1981. Similar financing of the Irvine center will be concluded during 1982 as an additional source of cash if long-term rates become favorable.

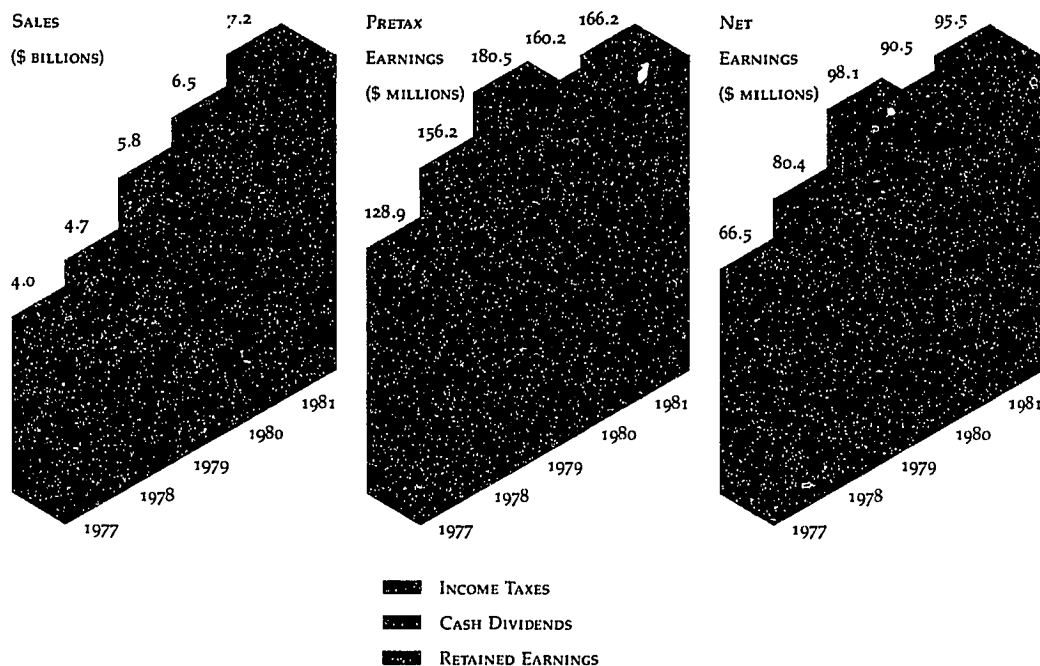
With the recent major additions to central facilities completed, the Company's capital expenditures in 1982 will be largely devoted to stores. Of the \$138 million total planned for 1982, about \$117 million will be invested in fixtures and equipment for new stores and in remodeling present stores. The remaining \$21 million will be primarily for new equipment in existing distribution facilities. The Company expects to finance these additions from internally generated funds. It is the Company's practice to lease its store buildings, so investment of its own funds in store real estate is not required.

Short-term cash and seasonal inventory financing requirements are met through issuance of commercial paper or borrowing under a revolving credit agreement with a group of banks. During the year, Lucky replaced its \$100 million revolving term loan agreement with a new seven-year \$150 million revolving credit and term loan agreement. This agreement permits Lucky to borrow on a revolving basis during the first three years and at the end of the three-year period, convert borrowings then outstanding or the entire \$150 million into a four-year term loan. No compensating balances are required under this agreement but the Company is required to pay $\frac{3}{8}$ percent commitment fee on the unused portion of the loan during the revolving period of the agreement. There were no borrowings under either loan agreement during 1981.

During the third quarter of the year, Lucky issued commercial paper to finance its seasonal inventory increase. The average amount of commercial paper outstanding during this peak inventory period was \$46 million at interest rates ranging from $14\frac{1}{4}$ percent to $15\frac{3}{4}$ percent.

The Company's capital resources are ample to fund its planned expansion program for the coming year and to maintain a strong, liquid financial position.

Lucky
Stores,
Inc.

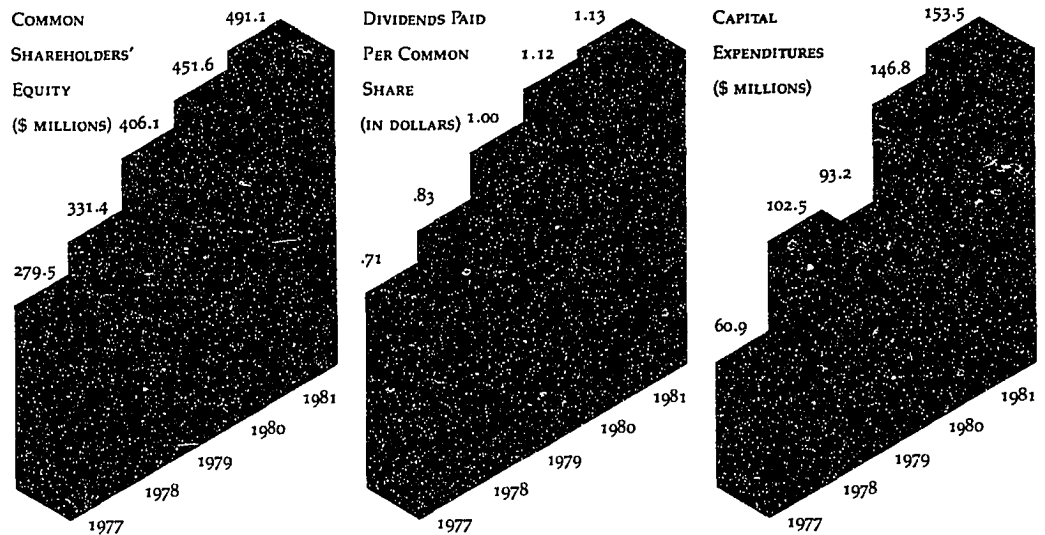


Results of Operations

The Company's operations in 1981 were again affected by many of the same factors that influenced 1980. The recessionary economy, accompanied by high unemployment, caused the continuation of cautious consumer spending. High interest rates, tight credit and lower housing turnover slowed sales of consumer durables and other discretionary items. These factors caused the operating results to vary considerably among the different segments of the Company's business.

Food stores, the Company's largest segment in both sales and profits, experienced a sales growth in excess of 11 percent. This rate of growth was achieved in spite of the slowing rate of inflation in food prices and the increasing severity of the recession in the Midwest. More important, sales gains in comparable stores were well above the rate of inflation. Pretax profits increased by \$12.5 million or approximately 17 percent, aided by an \$8 million decrease in the LIFO charge resulting from the lower rate of inflation in food costs. Profit gains were curtailed in part by continuing increases in operating expenses, particularly wage and energy costs, and by the start-up costs of the new distribution centers in the Midwest and Southern California.

Department store results continue to be adversely affected by economic conditions. Sales softness which began with the tight credit controls imposed early in 1980 continued through most of 1981. Strong sales gains in the fourth quarter brought the increase for the year to 12 percent, but pretax earnings declined by \$10 million. Earnings were affected by price reductions and increased advertising in an extremely competitive environment and by continuing increases in operating costs, particularly wages and utilities. In addition, the 1981 operating results include a sizeable non-recurring loss associated with two stores in North Carolina and one in Richmond, Virginia which were closed at the end of the year.



Results were good for most of the store types in the specialty retailing group.

Sales of the apparel and small family department stores increased by more than 11 percent. Especially strong gains in the apparel stores resulted from new merchandising and promotional programs initiated early in the year. The sales gains, accompanied by improved gross margins and effective expense control provided a significant improvement in return on sales and a 31 percent increase in pretax profit.

Automotive stores showed strong gains in sales, up 18 percent over 1980. These stores continue to benefit from the "do-it-yourself" economy. The sales increase occurred mostly in parts and accessories; tire and service sales remain relatively weak. The 10 percent improvement in pretax earnings during 1981 is primarily attributable to the strong sales increases in auto parts and to improvements in operating expense ratios as the new market entries in the Los Angeles Basin and Dallas-Ft. Worth became less costly.

Although fabric sales in total showed only a modest gain for the year, retail sales were up nearly 10 percent, apparently benefitting from economic conditions. Wholesale sales declined as a large chain customer commenced its own warehousing operation and many others curtailed their purchases because of credit restraints. Improved gross margins on retail sales were largely offset by increases in operating costs, with the result that pretax earnings for the year were essentially flat.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Restaurant sales, affected by economic conditions as well as by further reductions in the number of stores, declined by 13 percent for the year. The loss of \$2.5 million for the year is the result of reduced sales volume, lower gross profit margins and increased operating costs, particularly rising labor costs. The store consolidation efforts begun in 1980 have continued with the closing of 13 stores in 1981.

A general discussion of the effects of inflation on the Company's operations is contained in the financial review under "Supplementary Inflation Information." Comments appropriate to an understanding of its influence on the separate segments of our business are included above.

**Five-Year Summary
of Significant
Financial
Information**

(in thousands except per share amounts)	1981	1980	1979	1978	1977
Sales	\$7,201,404	\$6,468,682	\$5,815,927	\$4,658,409	\$4,035,369
Net earnings	95,452	90,458	98,094	80,400	66,475
Earnings per common share—					
Primary	1.88	1.80	2.01	1.72	1.41
Fully diluted	1.85	1.76	1.93	1.64	1.34
Cash dividends per common share	1.13	1.12	1.00	.83	.71
Total assets	1,524,444	1,400,601	1,221,547	1,042,846	905,755
Capital expenditures	153,473	146,794	93,217	102,549	60,861
Long-term obligations—					
Operating companies	124,281	128,489	42,624	59,937	72,172
Real estate subsidiaries	103,023	106,946	110,415	113,476	71,775
Capital lease obligations (long-term portion)	177,152	179,358	156,767	129,627	126,669
Redeemable preferred and preference shares	17,500	17,500	18,852	2,921	4,426
Common shareholders' equity	491,127	451,613	406,079	331,430	279,527

Results for 1979 include 53 weeks; 1979 through 1981 reflect the use of the LIFO method of accounting for inventories.

CONSOLIDATED EARNINGS

Years ended January 31, 1982, February 1, 1981 and February 3, 1980
(in thousands except per share amounts)

	1981	1980	1979
	(52 weeks)	(52 weeks)	(53 weeks)
Sales	\$7,201,404	\$6,468,682	\$5,815,927
Cost of goods sold	5,524,612	4,964,689	4,457,113
Gross margin	1,676,792	1,503,993	1,358,814
Expenses:			
Selling, general and administrative	1,411,516	1,260,874	1,106,218
Depreciation and amortization	67,966	58,347	50,383
Interest, net of interest income of \$9,954, \$7,779 and \$4,876	31,080	24,544	21,750
	1,510,562	1,343,765	1,178,351
Earnings before income taxes	166,230	160,228	180,463
Income taxes	70,778	69,770	82,369
Net earnings	\$ 95,452	\$ 90,458	\$ 98,094
Earnings per share:			
Primary	\$ 1.88	\$ 1.80	\$ 2.01
Fully diluted	\$ 1.85	\$ 1.76	\$ 1.93

CONSOLIDATED RETAINED EARNINGS

Years ended January 31, 1982, February 1, 1981 and February 3, 1980
(in thousands except per share amounts)

	1981	1980	1979
Beginning balance	\$ 201,189	\$ 167,667	\$ 116,205
Net earnings	95,452	90,458	98,094
Cash dividends:			
Preferred and preference	(1,374)	(1,468)	(1,249)
Common—\$1.13, \$1.12 and \$1.00 a share	(56,667)	(55,468)	(48,252)
Retained earnings of company acquired in pooling of interests			2,869
Ending balance	\$ 238,600	\$ 201,189	\$ 167,667

See Financial Review.

CONSOLIDATED BALANCE SHEET

At January 31, 1982 and February 1, 1981 (in thousands)

1981

1980

Assets*Current assets:*

Cash, including short-term investments of \$17,014 and \$25,500	\$ 65,671	\$ 64,302
Receivables	42,728	38,673
Inventories	611,930	546,196
Prepaid expenses and supplies	21,953	24,510
Properties for sale and leaseback	41,583	69,376
Total current assets	783,865	743,057
Property and equipment at depreciated cost:		
Operating companies	389,855	360,177
Real estate subsidiaries	163,791	104,408
Property under capital leases, less \$83,650 and \$82,718 accumulated amortization	152,551	157,960
Licenses, receivables and other assets	21,111	21,677
Excess of cost over net assets acquired	13,271	13,322
Total assets	\$1,524,444	\$1,400,601

**Liabilities
and
Shareholders'
Equity***Current liabilities:*

Accounts payable	\$ 306,685	\$ 257,295
Current instalments on long-term obligations	8,887	8,412
Current portion of capital lease obligations	6,268	6,418
Income taxes	30,296	22,753
Other taxes	40,835	32,827
Payroll and employee benefits	75,688	68,348
Other accrued liabilities	83,191	73,691
Total current liabilities	551,850	469,744
Long-term obligations—instalments due after one year:		
Operating companies	124,281	128,489
Real estate subsidiaries	103,023	106,946
Capital lease obligations	177,152	179,358
Deferred workers' compensation claims	27,071	22,957
Deferred income taxes	32,440	23,994
Contingencies—litigation		
Redeemable preference shares, redemption value \$23,064	17,500	17,500
<i>Common shareholders' equity:</i>		
Common shares, \$1.25 par value; outstanding 50,211,072 and 50,055,749 shares	62,764	62,570
Capital in excess of par value of shares issued	189,763	187,854
Retained earnings	238,600	201,189
Total common shareholders' equity	491,127	451,613
Total liabilities and shareholders' equity	\$1,524,444	\$1,400,601

See Financial Review.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Years ended January 31, 1982, February 1, 1981 and February 3, 1980
(in thousands)

		1981	1980	1979
Cash Provided Through Current Operations	Net earnings	\$ 95,452	\$ 90,458	\$ 98,094
	Expenses not requiring cash:			
	Depreciation and amortization	67,966	58,347	50,383
	LIFO charge	25,000	38,000	27,022
	Deferred taxes and workers' compensation claims	12,560	9,419	10,601
	Earnings and non-cash expenses	200,978	196,224	186,100
	Provided (used) by current operations:			
	Inventory growth at current cost	(90,734)	(53,868)	(81,766)
	Expansion (reduction) of accounts payable	49,390	(518)	37,662
	Financings (construction) of sale- leaseback properties	27,793	(30,316)	(32,110)
	Current income tax obligation in excess of payments	7,543	1,361	(7,720)
	Other taxes, payroll and other liabilities accrued in excess of payments	24,848	19,760	35,416
	Decrease (increase) in receivables and prepaid items	(1,498)	8,355	(11,310)
	Cash provided through current operations	218,320	140,998	126,272
Cash Provided (Used) by Other Financial Activities	Long-term borrowings		100,213	9,238
	Issuance of shares in acquisitions			19,956
	Cash dividends	(58,041)	(56,936)	(49,501)
	Additions to property and equipment:			
	New and existing stores	(78,708)	(92,810)	(72,593)
	New and existing central facilities	(74,765)	(53,984)	(20,624)
	Reduction of debt and capital lease obligations	(13,002)	(15,882)	(10,640)
	Disposition of property, equipment and capital leases	6,420	8,012	3,971
	Other	1,145	(7,440)	(1,489)
	Cash used by other financial activities	(216,951)	(118,827)	(121,682)
	Increase in cash and short-term investments	1,369	22,171	4,590
	Cash and short-term investments:			
	Beginning of year	64,302	42,131	37,541
	End of year	\$ 65,671	\$ 64,302	\$ 42,131

See Financial Review.

**Financial Review
1981**

The purpose of this financial review is to provide the additional information that may be necessary for a clear understanding of the financial statements. Dollar amounts, which in the statements are shown in thousands, are shown in the financial review in millions for easier reading.

**Summary of
Accounting
Policies**

Lucky's accounting policies conform with generally accepted accounting principles, are appropriate to the Company's business and have been consistently applied. The significant policies are described here to aid in understanding and evaluating the consolidated financial statements and other information in this report.

CONSOLIDATED financial statements include accounts and operating results of all subsidiaries. All significant intercompany accounts and transactions are eliminated.

SALES include the rent received from concessions in membership department stores, but not the sales made by the concessions.

INVENTORIES are valued at the lower of cost or market; cost is determined by the last-in, first-out method for substantially all inventories.

DEPRECIATION is computed for the financial statements using the straight-line method and the estimated useful lives of buildings, fixtures and equipment. Leasehold costs and improvements are amortized over their estimated useful lives or the remaining lease term, whichever is shorter.

MAINTENANCE AND REPAIRS are charged to expense as incurred and major improvements are capitalized.

PROPERTY UNDER CAPITAL LEASES is amortized on a straight-line basis over the life of the lease.

INVESTMENT TAX CREDITS reduce income taxes in the year eligible equipment is put into use.

INTEREST COST OF PROPERTIES UNDER DEVELOPMENT is capitalized during the development period.

PREOPENING COSTS of new stores are charged to expense in the year the store opens. These costs are primarily labor to stock the store, preopening advertising, store supplies and other expendable items.

CLOSED STORE COSTS, relating to future expenses of closed stores, are charged against income in the year they can be determined, usually when the store is subleased for the remaining term of the lease.

PENSION PLAN COSTS, including current costs and amortization of past service costs (generally over 30 years), are charged to expense and funded by contributions to the Trusts each year.

EXCESS OF COST OVER NET ASSETS ACQUIRED relates to acquisitions primarily before 1971. Amounts assigned to operations which management determined to have a limited life have been amortized using the estimated life. The remainder is not being amortized, because management believes it represents an asset with continuing value.

EARNINGS PER SHARE data include primary earnings per share which represent net earnings after preferred and preference dividends, divided by the weighted average number of common shares outstanding—50,148,717 for 1981, 49,551,130 for 1980 and 48,292,309 for 1979. Fully diluted earnings per share give effect to shares that may be issued for convertible securities and stock options where the effect is to dilute earnings per share.

Inventories

Substantially all inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) method. We believe that in an inflationary era the LIFO method will more closely match current merchandise costs with current sales revenues.

The current cost of inventories exceeded the LIFO cost by \$90.0 million at January 31, 1982 and \$65.0 million at February 1, 1981.

Capital Expenditures

Capital expenditures for 1981 were \$153.5 million compared with \$146.8 million in 1980. Total expenditures included \$74.8 million for warehouse and distribution facilities and \$78.7 million to equip new stores and remodel existing stores. Our investment in property and equipment at each yearend was as follows:

PROPERTY AND EQUIPMENT	Operating companies		Real estate subsidiaries	
	1981	1980	1981	1980
Buildings	\$ 25.1	\$ 49.9	\$144.6	\$ 93.9
Leasehold costs and improvements	90.0	73.5		
Fixtures and equipment	548.1	474.2	10.9	11.0
	663.2	597.6	155.5	104.9
Less accumulated depreciation and amortization	279.8	244.8	30.7	25.6
	383.4	352.8	124.8	79.3
Land	6.4	7.4	39.0	25.1
	\$389.8	\$360.2	\$163.8	\$104.4

The real estate subsidiaries are wholly owned by Lucky, and their properties are leased to Lucky. The majority of these properties have been financed through various institutional lenders with mortgages equal to the original investment and are pledged to secure the mortgage notes payable. This method of financing has allowed Lucky to own these properties with no initial cash outlay. Internally generated funds were used instead for the \$65.0 million added to real estate subsidiary properties in 1981.

At January 31, 1982 properties for sale and leaseback include \$37.0 million for which we have long-term financing commitments and \$4.5 million that will be held by consolidated real estate subsidiaries for which we are in process of obtaining long-term financing.

Expenditures for new facilities included \$3.5 million in 1981, \$5.4 million in 1980 and \$1.0 million in 1979 of interest capitalized as part of the cost of properties under development.

Financing

In addition to funds supplied by operations, Lucky provides for its expansion program through various short-term and long-term borrowings.

SHORT-TERM BORROWINGS: Short-term cash requirements are met through borrowings under a revolving credit agreement or the issuance of commercial paper. The commercial paper is backed by the Company's \$150 million revolving credit and term loan agreement effective March 1, 1981.

The revolving credit and term loan agreement permits Lucky to borrow on a revolving basis during the first eighteen months at the lower of the prime rate, offshore inter-bank offered rate plus .50 percent or a domestic fixed CD rate plus .65 percent. The interest rate increases after each eighteen month period in increments of .25 percent for all borrowing options. At the end of three years the Company may convert borrowings then outstanding or the entire \$150 million into a four-year term loan. No compensating balances are required under this agreement, but the Company is required to pay $\frac{3}{8}$ percent commitment fee on the unused portion of the loan during the revolving period of the agreement. There have been no borrowings under this agreement.

LONG-TERM OBLIGATIONS: The 1981 yearend balances, excluding \$8.9 million current instalments, are:

Operating companies:

8½% sinking fund debentures, due in 1996	\$ 15.1
6¾% convertible subordinated debentures, due in 2000	3.8
11⅛% notes, due in 1987	50.0
11¾% sinking fund debentures, due in 2005, less \$0.4 discount	49.6
Other	5.8
	<u>\$124.3</u>

Real estate subsidiaries:

5½% to 9¾% mortgage notes	\$103.0
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The 8½% sinking fund debentures, which were issued in 1971, are callable at prices decreasing from 103.83% of face value in 1982 to 100% after 1990. Annual sinking fund requirements of \$1.25 million through 1996 are met through 1984. The 6¾% convertible subordinated debentures were issued in 1975. They are callable at prices decreasing from 104.39% in 1982 to 100% after 1995. Annual sinking fund requirements of \$2.2 million are met through 1998 as a result of conversions. The debentures are convertible into 71 common shares for each \$1 thousand of principal. The 11⅛% notes were issued in 1980 and may be redeemed in whole or in part at any time commencing in 1985. The 11¾% sinking fund debentures were also issued in 1980, are redeemable at prices decreasing from 109.86% of face value in 1982 to 100% after 1999, and require annual sinking fund deposits of \$2.75 million beginning in 1989. Required sinking fund deposits and principal payments on long-term debt in each of the four years after 1982 are:

Fiscal year	Operating companies	Real estate subsidiaries
1983	\$2.7	\$3.7
1984	.5	4.0
1985	1.7	4.1
1986	1.6	4.4

Lucky
Stores,
Inc.

Long-Term Leases

Most of our stores and some of our other facilities are leased from outside parties. Many of the leases have renewal options for periods ranging from five to thirty years. Some give us the option to buy the property at certain times during the initial lease term for approximately its estimated fair market value at that time, and some require Lucky to pay taxes and insurance on the leased property.

Rent expense consists of:

	1981	1980	1979
Minimum rent under operating leases	\$69.7	\$61.1	\$56.4
Additional rent based on sales under all leases	19.0	16.1	13.7
Total	\$88.7	\$77.2	\$70.1

Future minimum lease payments under capital and operating leases as of January 31, 1982 are as follows:

Fiscal year	Operating leases	Capital leases
1982	\$ 63.3	\$ 22.3
1983	62.6	22.1
1984	62.3	21.7
1985	63.5	21.5
1986	61.5	21.2
Thereafter	731.9	285.4
Total minimum rent	\$1,045.1	\$394.2
Executory costs		(1.1)
Imputed interest		(209.7)
Present value of net minimum lease payments including \$6.3 million classified as current portion of capital lease obligations		\$183.4

The present value of minimum rent payments for operating leases, calculated using our incremental interest rates at the inception of the leases, would be approximately \$450 million at January 31, 1982.

Income Taxes

In addition to federal income taxes, Lucky pays taxes on income to various states in which it operates.

Other than the investment tax credit, the only significant difference between the federal statutory tax rate and the federal provision is the deduction allowed for state taxes on income.

PROVISION FOR INCOME TAXES	1981		1980		1979	
	Amount	%*	Amount	%*	Amount	%*
<i>Federal</i>						
Current	\$58.2	35.0	\$59.8	37.3	\$75.5	41.8
Deferred	12.5	7.5	9.3	5.8	1.9	1.0
Investment tax credits	(11.8)	(7.1)	(10.4)	(6.5)	(7.9)	(4.4)
Total federal	58.9	35.4	58.7	36.6	69.5	38.4
<i>State</i>						
Current	10.0	6.1	10.0	6.2	12.7	7.1
Deferred	1.9	1.1	1.1	.7	.2	.1
Total state	11.9	7.2	11.1	6.9	12.9	7.2
Total income taxes	\$70.8	42.6	\$69.8	43.5	\$82.4	45.6

*Percent of earnings before income taxes.

Deferred income taxes result from timing differences in the recognition of revenue and expense for financial and tax reporting purposes. The sources of these differences are primarily from our use for tax purposes of accelerated depreciation, actual rentals and interest incurred, in contrast with our use in the financial statements of straight-line depreciation, capital lease amortization and capitalization of interest on properties under development. The tax effects of these were as follows:

	1981	1980	1979
Accelerated depreciation	\$10.6	\$ 7.1	\$3.8
Capitalized interest	1.7	2.7	.4
Capital leases	(1.5)	(1.3)	(.9)
Other	3.6	1.9	(1.2)
	\$14.4	\$10.4	\$2.1

**Shareholders'
Investment**

Changes in shares outstanding and capital in excess of par value for 1979 through 1981 were as follows (shares in thousands, amounts in millions):

	Redeemable preferred and preference shares		Common shares (authorized one hundred million shares)		Capital in excess of par value of shares issued
	Shares	Amount	Shares	Amount	
Balance, January 28, 1979 —	50	\$ 2.9	47,137	\$58.9	\$156.3
Issuance of common shares in Scolari's pooling of interests —			300	.4	(.3)
Issuance of preference shares for Tampa acquisition —	226	17.0			
Conversion of convertible securities and exercise of stock options —	(21)	(1.1)	1,745	2.2	21.0
Balance, February 3, 1980	255	18.8	49,182	61.5	177.0
Conversion of convertible securities, exercise of stock options and redemption of preferred shares —	(19)	(1.3)	874	1.1	10.9
Balance, February 1, 1981 —	236	17.5	50,056	62.6	187.9
Conversion of convertible securities and exercise of stock options —			155	.2	1.9
Balance, January 31, 1982 —	236	\$17.5	50,211	\$62.8	\$189.8

At January 31, 1982, 235,641 shares of the five million shares authorized of no par value preference shares were issued and outstanding. All shares have preference as to dividends and redemption value in liquidation and are convertible into common shares. All are redeemable under sinking funds after various stipulated dates, 225,641 shares at \$100 a share and 10,000 shares at \$50 a share. In event of redemption, excess of redemption value over carrying value will be charged to retained earnings. Redemption requirements for the five years after 1981 are immaterial.

The Company's authorized capital also includes one hundred thousand preferred shares of \$50 par value which are unissued.

Lucky
Stores,
Inc.

**Employee
Benefit
Plans**

STOCK OPTIONS: Stock option plans for employees were approved by the shareholders in 1969 and 1978. Options may no longer be granted under the 1969 plan. Under the 1978 plan, options for 2,500,000 common shares may be granted. Options have been granted to employees under both plans to purchase common shares at a price not less than 100% of the fair market value at date of grant. Options may not be exercised within two years from the date of grant; expire five years (1969 plan) and seven years (1978 plan) from the date of grant; and terminate, except to a limited extent in the event of retirement or death of the optionee, upon termination of employment. The Management Compensation Committee of the Board of Directors, at its discretion, may settle the whole or any part of an exercisable instalment of an option granted under the 1978 plan by offering payment in common shares, or in common shares and cash, in exchange for the surrender of such instalment or partial instalment. No more than one half of any settlement offer may be in cash. The amount of any settlement offered shall be the lesser of the option price or the excess of the fair market value of the shares over the option price. No settlements have been made under the plan.

STOCK OPTION ACTIVITY	1981	1980
Options outstanding at beginning of year	1,518,284	1,451,215
Granted at \$15.88 to \$16.00 per share in 1981 and \$15.00 to \$16.88 per share in 1980	137,200	408,200
Exercised at \$12.61 to \$15.38 per share in 1981 and \$12.59 to \$15.38 per share in 1980	(44,189)	(23,682)
Terminated	(294,338)	(317,449)
Options outstanding at end of year	1,316,957	1,518,284

Of the options outstanding at the end of 1981, 312,694 were exercisable at \$13.23 to \$16.13 per share. Options for 1,254,835 shares are available for future grants.

At January 31, 1982, 2,821,093 authorized but unissued common shares were reserved for issuance upon conversion of convertible securities and exercise of stock options outstanding.

In February 1982 the Board of Directors adopted the 1982 incentive stock option plan subject to approval by the shareholders at the May 1982 annual meeting. The number of shares which may be granted under this plan may not exceed 2,500,000 reduced by the number of any future grants under the 1978 plan. The option price of the shares shall not be less than the fair market value at the date of grant. Options are not exercisable during the first year following grant or while any previously granted option remains outstanding, but are exercisable thereafter at such times and in such instalments as the Management Compensation Committee of the Board of Directors shall determine at the time of grant. Options expire at such time as the Committee shall determine at the time of grant, but no later than six years from the grant date; and terminate, except to a limited extent in the event of retirement or death of the optionee, upon termination of employment.

PENSION PLANS: Substantially all of our employees are covered by trustee, non-contributory Company pension plans or by various multi-employer retirement plans under collective bargaining agreements.

The cost of the Company plans was \$5.7 million for 1981, \$3.5 million for 1980 and \$3.4 million for 1979. At November 30, 1980, the date of the latest actuarial reports, the actuarial present value of accumulated vested plan benefits was \$34.4 million and of non-vested benefits, \$9.9 million. The assumed rate of return used in determining the actuarial present value of accumulated benefits was 6%. At November 30, 1980, net assets available to provide for the accumulated benefits were \$43.7 million.

The cost for employees covered by multi-employer plans was \$45.0 million in 1981, \$40.2 million in 1980 and \$32.1 million in 1979. Accumulated benefits and net asset information comparable to that shown above for Company plans is not now available for the Company's employees covered by the multi-employer plans.

INCENTIVE COMPENSATION PLANS: Lucky has incentive compensation plans for store management and other management personnel covering more than 3,500 employees. Provision for payments to be made under the plans is based on pretax earnings in excess of a specified return on capital employed in Lucky's operations. The aggregate provision under both plans was \$16.9 million in 1981, \$16.8 million in 1980 and \$18.0 million in 1979.

Litigation

Civil suits have been brought against Lucky for substantial damages under the anti-trust laws and for certain other matters.

Among these are 19 lawsuits against Lucky and others, including many of the nation's largest food retailers, alleging violation of the antitrust laws in connection with the purchase and sale of beef. These cases include purported class actions that could involve as plaintiffs all persons in the United States engaged in the business of raising and selling cattle. These actions seek substantial damages and other relief, and adverse judgments could have a significant impact on the Company and its business. It is not possible to predict their outcome. Eighteen of these cases have been consolidated in the United States District Court, Northern District of Texas, Dallas Division, for coordinated pretrial proceedings. The remaining case is in the state courts of California, where there is pending plaintiffs' appeal from the trial court's dismissal of their complaint. The Company intends to defend itself vigorously in all of these cases.

Management believes that the charges made against the Company in these pending lawsuits are not justified and that it is unlikely that these lawsuits will have a material effect on the financial condition of the Company.

FINANCIAL REVIEW (CONTINUED)

**Business
Segment
Information**

Lucky is a diversified retailer operating stores in three broad retailing groups. Sales and earnings information for the principal types of stores in these groups is shown in the table below.

There are no sales of significance from one business segment to another. General corporate expenses and net interest expense arising from general corporate debt and investments amounted to \$12.1 million in 1981, \$5.2 million in 1980 and \$5.8 million in 1979. These expenses enter into the determination of pretax earnings of the business segments, having been allocated on the basis of sales (for general corporate expenses) or assets employed (for net interest expense).

	1981		1980		1979	
SALES:						
Food stores	\$4,639.3	64.4%	\$4,169.4	64.5%	\$3,692.2	63.5%
Department stores	1,869.5	26.0	1,665.4	25.7	1,520.0	26.1
Specialty retailing:						
Apparel and small family						
department stores	\$256.8		\$230.4		\$227.2	
Automotive stores	224.4		189.4		164.0	
Fabrics	143.7		136.5		133.0	
Restaurants	67.7		77.6		79.5	
	692.6	9.6	633.9	9.8	603.7	10.4
Total	\$7,201.4	100.0%	\$6,468.7	100.0%	\$5,815.9	100.0%
PRETAX EARNINGS:						
Food stores	\$ 86.5	52.1%	\$ 74.0	46.2%	\$ 79.8	44.2%
Department stores	31.4	18.9	41.7	26.0	57.4	31.8
Specialty retailing:						
Apparel and small family						
department stores	\$19.8		\$15.1		\$14.6	
Automotive stores	15.0		13.6		13.5	
Fabrics	16.0		16.4		13.2	
Restaurants	(2.5)		(.6)		2.0	
	48.3	29.0	44.5	27.8	43.3	24.0
Total	\$ 166.2	100.0%	\$ 160.2	100.0%	\$ 180.5	100.0%
LIFO CHARGE:						
Food stores	\$ 10.0		\$ 18.0		\$ 9.9	
Department stores	8.7		13.0		8.3	
Specialty retailing:						
Apparel and small family						
department stores	\$1.4		\$2.2		\$1.6	
Automotive stores	2.1		1.9		2.3	
Fabrics	2.8		2.9		4.9	
	6.3		7.0		8.8	
Total	\$ 25.0		\$ 38.0		\$ 27.0	

Assets employed are those directly identifiable by business segment or allocated on the basis of estimated usage. Corporate assets are principally cash and the corporate headquarters property. Assets employed, additions to property and equipment (other than property under capital leases) and depreciation and amortization are shown in the following tables:

	1981	1980	1979
ASSETS EMPLOYED:			
Food stores _____	\$ 760.9	\$ 649.4	\$ 551.5
Department stores _____	461.4	428.4	395.4
Specialty retailing:			
<i>Apparel and small family</i>			
<i>department stores</i> _____	\$85.6	\$73.7	\$75.6
<i>Automotive stores</i> _____	77.4	71.9	63.7
<i>Fabrics</i> _____	88.3	90.4	81.0
<i>Restaurants</i> _____	40.0	43.2	40.2
	291.3	279.2	260.5
Corporate _____	10.8	43.6	14.1
Total _____	\$1,524.4	\$1,400.6	\$1,221.5
ADDITIONS TO PROPERTY AND EQUIPMENT:			
Food stores _____	\$ 101.4	\$ 92.5	\$ 55.3
Department stores _____	38.6	37.1	21.0
Specialty retailing:			
<i>Apparel and small family</i>			
<i>department stores</i> _____	\$4.4	\$3.5	\$4.2
<i>Automotive stores</i> _____	4.8	4.1	2.6
<i>Fabrics</i> _____	1.0	1.5	.6
<i>Restaurants</i> _____	2.9	8.1	8.0
	13.1	17.2	15.4
Corporate _____	.4		1.5
Total _____	\$ 153.5	\$ 146.8	\$ 93.2
DEPRECIATION AND AMORTIZATION:			
Food stores _____	\$ 40.5	\$ 34.9	\$ 30.2
Department stores _____	18.4	15.0	13.0
Specialty retailing:			
<i>Apparel and small family</i>			
<i>department stores</i> _____	\$2.7	\$2.8	\$2.5
<i>Automotive stores</i> _____	2.4	2.0	1.6
<i>Fabrics</i> _____	.7	.6	.6
<i>Restaurants</i> _____	3.2	2.9	2.4
	9.0	8.3	7.1
Corporate _____	.1	.1	.1
Total _____	\$ 68.0	\$ 58.3	\$ 50.4

**Selected
Quarterly
Financial
Data**

(Unaudited)

(in millions, except per share amounts)				Per common share		
	Sales	Gross margin	Net earnings	Net earnings	Cash dividends	Price range (NYSE)
1981						
Fourth quarter	\$2,011.2	\$ 479.1	\$38.0	\$.75	\$.29	12½-14¼
Third quarter	1,762.3	409.4	19.2	.38	.28	12¼-15⅞
Second quarter	1,739.3	395.3	18.2	.36	.28	14¾-16⅞
First quarter	1,688.6	393.0	20.1	.40	.28	13⅞-17¼
Year	\$7,201.4	\$1,676.8	\$95.5	\$1.88	\$1.13	
1980						
Fourth quarter	\$1,824.2	\$ 427.0	\$34.1	\$.68	\$.28	13½-15¾
Third quarter	1,595.5	364.6	18.0	.36	.28	14½-17¾
Second quarter	1,555.7	361.8	19.5	.39	.28	15 -17⅞
First quarter	1,493.3	350.6	18.9	.38	.28	13¾-15⅞
Year	\$6,468.7	\$1,504.0	\$90.5	\$1.80	\$1.12	

Per share amounts, based on average shares outstanding during each quarter, may not add to total for the year.

Quarterly LIFO charges are based on estimates. If the actual inflation rate had been known, earnings per share for the 1981 quarters would have been \$.62, \$.41, \$.40 and \$.46 respectively; earnings per share as reported for the 1980 quarters would not have been materially affected.

**Supplementary
Inflation
Information**

(Unaudited)

The financial statements which appear on pages 9 through 11 are prepared in conformity with generally accepted accounting principles, which follow the historical cost basis of accounting. The statements reflect actual transactions expressed in the number of dollars earned or expended without regard to changes in the purchasing power of the dollar. Costs incurred over different periods of time are deducted from current revenues with the result that earnings from operations often match costs and revenues in dollars of differing purchasing power.

In recognition of this result the Financial Accounting Standards Board (FASB) requires certain supplementary disclosures expressed in constant dollars, which deals with the effect of general inflation, and in current cost, which deals with changes in specific prices. Each of these methods attempts to show the effect of inflation on inventory valuation and the cost of goods sold, and on property and equipment and the related depreciation and amortization expense.

Under the constant dollar method, cost of goods sold as well as depreciation and amortization expense are restated into dollars presumed to have equal purchasing power, using the Consumer Price Index for All Urban Consumers (CPI) as a measure of the general rate of inflation.

Under the current cost method, cost of goods sold is restated to reflect the specific costs that would have been incurred if all merchandise sold had been purchased in the current year; depreciation and amortization is calculated as if all property and equipment had been purchased at current year prices.

In the supplementary information below the 1981 earnings statement is shown restated by the methods outlined above: (1) in dollars having the average purchasing power of the dollar during our fiscal year 1981, as measured by the CPI (referred to as "average 1981 dollars") and (2) on the basis of current cost.

CONSOLIDATED EARNINGS		As restated	
Year ended January 31, 1982 (in millions, except per share amounts)	As reported	In average 1981 dollars	On the basis of current cost
Sales	\$7,201.4	\$7,201.4	\$7,201.4
Cost of goods sold	5,524.6	5,553.9	5,524.6
Selling, general and administrative expenses	1,411.4	1,411.4	1,411.4
Depreciation and amortization	68.0	105.1	91.4
Interest expense	31.1	31.1	31.1
Pretax earnings	166.3	99.9	142.9
Income taxes	70.8	70.8	70.8
Net earnings	\$ 95.5	\$ 29.1	\$ 72.1
Earnings per common share	\$ 1.88	\$.55	\$ 1.41
Effective tax rate—% of pretax earnings	42.6%	70.9%	49.5%
Gain from decline in purchasing power of monetary items	-	\$ 65.5	-

As the purpose of restatement is to remove as much as possible the effect of inflation on reported earnings, it should be expected that both restatement methods would produce lower net earnings than reported. As discussed above, cost of goods sold and depreciation and amortization are the only elements of the earnings statement required to be restated. Sales and the other expenses in the earnings statement occurred evenly through the year and are presumed to be in average 1981 dollars. The inflation adjustments reduce pretax earnings but do not change income taxes, because inflation adjustments are not deductible for tax purposes. Thus, the effective tax rates on inflation-adjusted earnings are much higher than on earnings as reported.

In applying the constant dollar method, the restated cost of goods sold is calculated as if the inventory at the beginning of the year had been paid for in average 1981 dollars instead of the 1980 dollars we actually paid. A similar adjustment is necessary to express the ending inventory, purchased at yearend 1981 dollars, in average 1981 dollars. The restated depreciation and amortization is calculated as if all of the buildings and equipment we own and all of the property we lease had been purchased with average 1981 dollars.

The restatement based upon the CPI, as required by the FASB, increased cost of goods sold by \$29.3 million. However, the 10 percent increase in the CPI during 1981 is not indicative of the increase in the cost of merchandise we sell. We believe the inflation rate for our business was between 4 and 5 percent during the current year. Restatement at that rate would not have materially changed the cost of goods sold as reported in our financial statements. This is because we are essentially writing off the effects of inflation on our inventory by using the LIFO method.

In applying the current cost method, the restated cost of goods sold is intended to reflect the cost of merchandise at the time it is sold, rather than the cost at the earlier date when it was purchased. Because of the rapid turnover of our inventory (nine times during 1981) there is little difference in the cost of merchandise between the dates of purchase and sale. As the use of LIFO essentially includes this difference in the cost of goods sold as reported, the cost of goods sold on the basis of current cost is the same.

Depreciation and amortization are based on the current cost of property and equipment determined by using industry indexes and engineering estimates which represent the actual costs currently being incurred for purchase or construction of similar properties, and reflect the current cost of properties of essentially the same service potential as those now in use. *Because they are estimates, however, they should be considered to be approximate rather than precise measures of current cost.* Furthermore, they are not intended, and should not be presumed, to represent either the value at which the properties might be appraised or the prices at which they could be sold.

Both constant dollar and current cost depreciation and amortization have been determined on the basis of the same straight-line rates used in the financial statements.

Inflation also affects the purchasing power of monetary assets and liabilities. These are cash or claims to cash such as receivables which are for a fixed number of dollars, and *borrowings or other obligations such as lease rentals which are payable in a fixed number of dollars.* As the purchasing power of the dollar decreases with inflation, the monetary assets we own lose some of their purchasing power. Our monetary liabilities, on the other hand, will be paid with dollars of lower purchasing power as the result of inflation. This represents a gain in purchasing power to us. Because Lucky is a moderately leveraged company—our monetary liabilities exceed monetary assets—we had a gain in purchasing power from those items of \$65.5 million in 1981. This gain is shown separately below the supplementary restated earnings information on page 23. Although such gains are a significant part of the effects of inflation on United States companies, the FASB requirements exclude them from net earnings as restated.

In addition to the restatement of current year earnings information, the FASB also requires selected financial information as reported, as well as some current cost information for the latest three to five years, to be expressed in average 1981 dollars (constant dollars), based on the average CPI for each of those years. The table below shows this information together with the average CPI used in the calculation.

SELECTED SUPPLEMENTARY FINANCIAL INFORMATION ADJUSTED FOR CHANGING PRICES

(in millions, except per share amounts)	1981	1980	1979	1978	1977
<i>Sales:</i>					
As reported	\$7,201.4	\$6,468.7	\$5,815.9	\$4,658.4	\$4,035.4
Constant dollars	7,201.4	7,120.1	7,254.9	6,486.9	6,062.6
<i>Net earnings:</i>					
As reported	95.5	90.5	98.1		
Constant dollars	29.1	35.6	46.9		
Current cost	72.1	71.4	94.2		
<i>Per common share—</i>					
As reported	1.88	1.80	2.01		
Constant dollars	.55	.68	.94		
Current cost	1.41	1.41	1.92		
Gain from decline in purchasing power of net monetary liabilities	65.5	86.2	102.9		
<i>Common shareholders' equity:</i>					
As reported	491.1	451.6	406.1		
Constant dollars	1,018.9	972.5	904.8		
Current cost	876.9	876.3	899.9		
<i>General rate of inflation greater (less) than increase in specific prices of:</i>					
Inventory	28.8	31.9	46.0		
Property, equipment and property under capital leases	38.1	91.2	(116.7)		
<i>Cash dividends:</i>					
As reported	1.13	1.12	1.00	.83	.71
Constant dollars	1.13	1.23	1.24	1.16	1.07
<i>Market price of common shares at yearend:</i>					
As reported	13.00	14.00	14.75	15.00	12.75
Constant dollars	12.62	14.74	17.35	20.09	18.68
<i>Average Consumer Price Index (for Lucky fiscal year; 1967 = 100)</i>	274.2	249.1	219.8	196.9	182.5

At January 31, 1982, current cost of inventory was \$702 million and the current cost of property and equipment and property under capital leases, net of accumulated depreciation and amortization, was \$1,041 million.

Growth in real sales is the foundation for sustained profitability of a retailer. An important objective of constant dollar reporting is to distinguish inflationary sales growth from real growth. The constant dollar restatement (based on the CPI) indicates a five year compound annual growth rate of 4.3 percent. We do not believe that this represents Lucky's real growth, however, because prices of the merchandise we sell have increased during the past three years at about half the rate of increase in the CPI. This is indicated in the preceding table by the excess of the general rate of inflation (measured by the CPI) over the increase in specific prices of inventory for those years. If our sales were restated at rates based on our internal statistics which we believe to be more representative of our experienced inflation rate, they would show growth in each of the five years and a five year compound growth rate in excess of 7.5 percent.

**Report of
Independent
Accountants**



To the Board of Directors and
Shareholders of Lucky Stores, Inc.

In our opinion, the consolidated financial statements appearing on pages 9 through 26 of this report present fairly the financial position of Lucky Stores, Inc. and its subsidiaries at January 31, 1982 and February 1, 1981 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Oakland, California
March 19, 1982

Price Waterhouse

REPORT OF MANAGEMENT

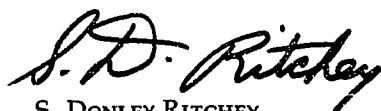
**Report of
Management**

Lucky's management has prepared the consolidated financial statements and is responsible for the integrity of the information in them, as well as for the other information in the annual report. We believe that the statements conform with generally accepted accounting principles appropriate to our business. The statements are based on our best judgments and estimates where required.

In fulfilling our responsibilities for the integrity of financial information and for safeguarding assets, we rely upon a system of internal controls designed to provide reasonable assurance that our records accurately reflect our business transactions and that these transactions are in accordance with management's authorization. Our system of control includes careful selection and development of people, written policies and procedures, a clearly defined organizational structure, and responsibility reporting with strong budgetary controls. These are supplemented by an internal audit staff which evaluates and reports to management on the adequacy of the records and the effectiveness of the controls.

The financial statements have been examined by Price Waterhouse, independent accountants appointed by the Board of Directors upon the recommendation of its Audit Committee. Their examination provides an independent review of management's discharge of its responsibilities for reporting Lucky's financial condition and results of operations.

The Board of Directors monitors our internal controls through an Audit Committee composed entirely of directors who are not officers or employees of Lucky. The independent accountants as well as the internal auditors have complete and free access to the Audit Committee, and the Committee meets periodically with them and with financial management to ensure that each group is properly discharging its responsibilities.

**S. DONLEY RITCHEY**Chairman of the Board and
Chief Executive Officer**IVAN OWEN**Senior Vice President and
Chief Financial Officer

STORE INFORMATION

		(yearend square feet in thousands)	1982 Plan	1981	1980
Food Stores	Discount centers	<i>Average 31,000 square feet</i>			
	■ LUCKY	Opened	35	22	30
	■ EAGLE	Closed	—	5	4
	■ FOOD BASKET	Converted from supermarkets	—	13	7
	■ KASH N' KARRY	Yearend -stores	404	369	339
		-square feet	12,333	11,274	10,373
	Supermarkets	<i>Average 21,000 square feet</i>			
		Opened	—	—	—
		Acquired	—	—	11
		Closed	10	8	14
		Converted to discount centers	—	13	7
		Yearend -stores	162	172	193
		-square feet	3,458	3,627	4,144
Department Stores	■ GEMCO	<i>Average 110,000 square feet</i>			
	■ MEMCO	Opened	8	6	7
		Closed	—	3	—
		Yearend -stores	94	86	83
		-square feet	10,390	9,518	9,211
Specialty Retailing	Apparel and small family department stores	<i>Range from 3,500 to 14,000 square feet</i>			
	■ PIC-A-DILLY	Opened	45	32	37
	■ IT'S-A-DILLY	Closed	16	14	46
	■ YELLOW FRONT	Yearend -stores	360	331	313
	■ L&G	-square feet	2,348	2,124	2,033
	Automotive stores	<i>Range from 3,500 to 9,000 square feet</i>			
	■ KRAGEN	Opened	88	47	46
	■ DORMAN'S	Acquired	7	—	—
	■ CHECKER	Closed	6	11	3
		Yearend -stores	405	316	280
		-square feet	1,653	1,293	1,230
	Fabric stores	<i>Average 15,000 square feet</i>			
	■ HANCOCK	Opened	18	22	17
	■ FABRIC WAREHOUSE	Closed	3	11	8
		Yearend -stores	193	178	167
		-square feet	2,874	2,703	2,594
	Restaurants	<i>Average 4,500 square feet</i>			
	■ SIRLOIN STOCKADE	Opened	—	1	9
	■ FRED GANG'S	Closed	—	13	43
		Yearend -stores	124	124	136
		-square feet	553	553	592
Total		Opened or acquired	201	130	157
		Closed	35	65	118
		Yearend -stores	1,742	1,576	1,511
		-square feet	33,609	31,092	30,177
	Sales per square foot of net selling space				
		Food stores		\$466	\$430
		Department stores		\$300	\$294
		-Excluding food department		\$230	\$223

CENTRAL FACILITIES

Lucky
Stores,
Inc.

	(square feet in thousands)	Northern California	Southern California	Illinois & Indiana	Florida	Other locations	Total
Warehouse, Distribution and Related Facilities	Grocery, produce and liquor	894	1,035	1,170	523	377	3,999
	Nonfood	204	606	126	42	559	1,537
	Frozen food		67	62	37		166
	Appliance	50	72			74	196
	Automotive	104	85			312	501
	Fabric					133	133
	Jewelry		24				24
	Apparel	147	335			84	566
	Office, shops and garage	157	119	100	54	118	548
Food Manufacturing and Processing Facilities	Bakery	71	80	49		54	254
	Beverage		46				46
	Milk processing	34	79				113
	Ice cream		46				46
	Meat	94	139			28	261
	Sausage and luncheon meats	74					74
Other Manufacturing	Household chemicals		100				100
	Tire retreading		125				125
	Photo finishing		10				10
Total		1,829	2,968	1,507	656	1,739	8,699

Our distribution centers and other service facilities are a vital part of our retailing operations, and essential to their success. They consist of warehouses for assembling merchandise and distributing it to the stores; manufacturing and processing plants producing various private label items; truck fleets to move the products; and the offices, garages and shops to keep all of them in operation.

The eight major distribution centers operated by our food divisions provide more than five million square feet for warehousing food and nonfood merchandise. An additional 2.5 million square feet of warehouse space, office, and other support facilities serve primarily the other operating divisions and subsidiaries. Eighteen manufacturing and processing facilities occupy another one million square feet.

TEN - YEAR SUMMARY

(dollars in thousands except per share amounts)

Ten-Year
Summary

	1981	1980
	52 Weeks	52 Weeks
Sales†	\$ 7,201,404	\$ 6,468,682
Percentage increase over prior year	11.3	11.2
10-year compounded rate of increase	14.6	
Average annual sales per food unit	8,659	8,047
Earnings‡		
Before income taxes	\$ 166,230	\$ 160,228
Income taxes	70,778	69,770
Net earnings	95,452	90,458
Percentage increase (decrease) from prior year	5.5	(7.8)
10-year compounded rate of increase	11.3	
As a percent of sales	1.3	1.4
As a percent of average common shareholders' equity	20.0	20.8
Earnings per common share—primary	1.88	1.80
Earnings per common share—diluted	1.85	1.76
Dividends		
Total cash dividends paid on preference shares	\$ 1,374	\$ 1,468
Total cash dividends paid on common shares	56,667	55,468
Dividends paid per common share:		
In cash	1.13	1.12
Percentage of primary earnings per share*	60.1	62.2
In shares		
Shareholders		
Number of common shareholders of record	34,738	36,221
Number of common shares outstanding	50,211,072	50,055,749
Price range of common shares on NYSE	17.25-12.25	17.75-13.50
Other Information		
Current assets	\$ 783,865	\$ 743,057
Current liabilities	551,850	469,744
Working capital	232,015	273,313
Long-term debt—operating companies	124,281	128,489
Long-term debt—realty subsidiaries	103,023	106,946
Capital lease obligations—long-term	177,152	179,358
Shareholders' equity:		
Preferred	17,500	17,500
Common	491,127	451,613
Per common share	9.78	9.11
Capital expenditures—operating companies	88,489	146,794
Capital expenditures—realty subsidiaries	64,984	
Depreciation and amortization	67,966	58,347
Inventories	611,930	546,196
Interest expense, net	31,080	24,544
LIFO charge for the year	25,000	38,000
Investment tax credit	11,800	10,400
Federal and state income taxes—percentage of earnings before taxes on income	42.6	43.5
Number of employees	66,000	65,000

Years prior to 1978 have been adjusted for stock dividends.

†Sales and earnings for years 1972 through 1977 restated to reflect poolings of interests.

*Based on earnings, shares outstanding and dividends as reported, before restatement for subsequent poolings.

1979	1978	1977	1976	1975	1974	1973	1972
53 Weeks	52 Weeks	52 Weeks	52 Weeks	52 Weeks	52 Weeks	53 Weeks	52 Weeks
\$ 5,815,927 24.8 7,575	\$ 4,658,409 15.4 6,794	\$ 4,035,369 10.9 6,043	\$ 3,637,754 12.7 5,761	\$ 3,229,308 16.0 5,530	\$ 2,784,804 16.0 5,122	\$ 2,401,829 16.2 4,522	\$ 2,066,300 12.0 4,224
\$ 180,463 82,369 98,094 22.0 1.7 26.3 2.01 1.93	\$ 156,184 75,784 80,400 20.9 1.7 26.3 1.72 1.64	\$ 128,907 62,432 66,475 27.3 1.6 25.4 1.41 1.34	\$ 101,013 48,774 52,239 1.9 1.4 22.0 1.11 1.06	\$ 99,337 48,079 51,258 18.1 1.6 23.6 1.10 1.07	\$ 85,253 41,836 43,417 20.1 1.6 22.8 .94 .93	\$ 69,572 33,426 36,146 7.2 1.5 21.2 .78 .78	\$ 63,408 29,674 33,734 2.7 1.6 22.1 .79 .78
\$ 1,249 48,252 1.00 49.8	\$ 168 37,408 .83 48.3 3%	\$ 200 29,565 .71 50.0 3%	\$ 208 25,309 .63 55.7 3%	\$ 218 23,062 .58 48.9 3%	\$ 255 19,501 .50 48.7 3%	\$ 347 16,961 .46 53.5 3%	\$ 371 15,377 .42 51.5 3%
38,016 49,182,688 17.75-14.13	39,373 47,137,956 18.50-12.62	38,694 42,022,784 15.85-12.62	38,387 37,785,811 15.55-12.01	38,667 36,644,229 15.79-9.55	38,786 35,439,796 12.08-6.66	36,491 32,631,050 13.48-8.52	33,558 31,336,231 18.53-10.99
\$ 683,057 449,278 233,779 42,624 110,415 156,767 18,852 406,079 8.41 93,217 50,383 530,328 21,750 27,022 7,878 45.6 63,000	\$ 580,303 378,524 201,779 59,937 113,476 129,627 2,921 331,430 7.10 57,184 44,191 475,584 18,500 5,245 48.5 55,000	\$ 507,441 332,554 174,887 72,172 71,775 126,669 4,426 279,527 6.03 52,100 40,087 388,760 18,542 4,007 48.4 47,000	\$ 454,333 293,716 160,617 72,201 64,844 122,141 4,773 242,577 5.24 41,013 36,144 352,507 17,124 3,382 48.3 45,000	\$ 391,600 244,897 146,703 82,817 52,983 111,600 4,845 230,382 4.99 38,871 33,059 309,649 15,609 3,247 48.4 42,000	\$ 323,604 244,711 78,893 37,447 50,434 114,036 5,238 202,587 4.40 38,614 29,778 275,016 18,700 2,052 49.1 39,400	\$ 283,085 209,646 73,439 39,114 51,760 6,502 175,884 3.86 38,445 20,023 238,738 7,397 2,069 48.1 34,000	\$ 244,467 172,885 71,582 42,393 49,702 8,763 162,076 3.83 38,939 5,535 16,953 192,804 7,089 2,144 46.8 32,500

CORPORATE INFORMATION

**Board of
Directors**

GERALD A. AWES*	Honorary Chairman. Formerly Chief Executive Officer
REED L. BUFFINGTON	Senior Vice President—Administration
WILLIAM H. DYER, JR.*†	Retired. Formerly Chief Executive Officer
WAYNE H. FISHER*	Retired. Chairman of the Executive Committee. Formerly Chief Executive Officer
DON C. FRISBEE†	Chairman of the Board of Pacific Power & Light Company, Portland, Oregon
STANLEY HILLER, JR.†	Partner, Hiller Investment Company, private investments, Menlo Park, California
WALTER E. HOADLEY†	Retired. Formerly Executive Vice President and Chief Economist of the Bank of America, NT&SA
JOHN H. HOEFER	Chairman of the Board of Chiat/Day, inc. Advertising, San Francisco, California
MELVIN B. LANE	President, Lane Publishing Company, Menlo Park, California
MARY E. LANIGAR†	Retired. Formerly partner in Arthur Young & Company, certified public accountants, San Francisco, California
JOHN M. LILLIE*	President
IVAN OWEN	Senior Vice President and Chief Financial Officer
JAMES A. PETIT	President of Rancho del Viento, Inc., farming, King City, California
FORREST A. PLANT	Partner in the law firm of Diepenbrock, Wulff, Plant & Hannegan, Sacramento, California
S. DONLEY RITCHEY*	Chairman of the Board and Chief Executive Officer
DWIGHT E. STANFORD	Retired. Attorney, San Diego, California
JOSEPH A. WOODS, JR.	Partner in the law firm of Donahue, Gallagher, Thomas & Woods, Oakland, California
FRED A. FERROGGIARO	Honorary Director

* Executive Committee

† Audit Committee

Officers

S. DONLEY RITCHEY	Chairman of the Board and Chief Executive Officer
JOHN M. LILLIE	President
REED L. BUFFINGTON	Senior Vice President, Administration
MORTON GODLAS	Senior Vice President, General Merchandise
IVAN OWEN	Senior Vice President and Chief Financial Officer
LEON W. ROUSH	Senior Vice President, Food Operations
RICHARD C. BIAGI	Vice President, Real Estate
THEODORE F. BRUNNER	Vice President, Manufacturing
KENNETH W. COPE	Vice President, Controllor
DONNA L. DEMOSS	Vice President and Treasurer
FRANK J. DORSEY	Vice President, Warehousing, Distribution and Store Systems
LESTER C. KRANHOLD	Vice President, Engineering
WALTER A. NELSEN	Vice President, Produce Merchandising
R. LEE PAULSON	Vice President, Management Information Systems
JERRY J. SGOBASSI	Vice President, Meat Operations
RAYMOND H. SWEENEY	Vice President, Industrial Relations
NANCY E. BURNETTE	Secretary

Division Presidents

STANLEY H. COIN	Midwestern Food Division
DORRIS G. CUNNINGHAM	Yellow Front Division
C. WILBUR HALL	Florida Food Division
PETER L. HARRIS	Department Store Division
THOMAS F. HERMAN	Checker Division
JACK A. HOOVER	Northern Food Division
STEPHEN L. JACOBS	Atherton Division
ROBERT K. KENYON	Automotive Division
A. GAYLE PADEN	Southern Food Division

Subsidiary Presidents

THEODORE F. BRUNNER	Sirloin Stockade, Inc.
MORRIS O. JARVIS	Hancock Textile Co., Inc.

LKS Imports

JACOB E. HENEGAR	President
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